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INTELLIGENCE HIGHLIGHTS -- WEEK OF 24 FEBRUARY - 1 MARCH 1948

GENERAL

Sino-Siamese relations

Sino-Siamese friction is again developing over the perennial questions of immigration quotas and education in Chinese private schools. Chinese leaders in Siam have consistently pressed for special treatment of Siam's Chinese residents and just as consistently present Siamese authorities have refused to grant preferential treatment. Basing demands on an agreement between former Premier Thamrong and the Chinese Ambassador, the Chinese Embassy is asking for a 1948 increase in the 1947 immigration quota (10,000). The Siamese Foreign Minister, in return, insists that no records of such an agreement exist and, furthermore, has taken the firm position that the 1947 quota will be maintained.

Siamese law requires registration of all private schools and requires that the national flag be flown daily over all schools, except on special occasions when other national flags may also be displayed. Chinese insistence upon the maintenance of national individuality has resulted in instances contravening this law and has been responsible for the present ill feeling.

Chinese recognition of the post-coup regime has been held out as an inducement for favorable treatment of the Chinese immigration quota and education problems. The Aphaiwong Government has not acceded to Chinese pressure and may be expected to continue its policy of non-preferential treatment for the Chinese minority in Siam.

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JAPAN

Composition of Japanese Cabinet still undecided. Although Hitoshi Ashida, President of the Democratic Party, was elected to the premiership on 21 February by the lower house of the Diet, the composition of his Cabinet remains open to question. Ashida continues to appear hopeful of forming a coalition of Democrats, Socialists and People's Cooperatives. In order to gain the support of the left wing Socialists who control as many as 70 of the 466 Diet seats and who are absolutely essential if the coalition is to hope for even a modicum of success, Ashida may so compromise his position as to lose the support of the People's Cooperatives and some of his own Democrats.

The situation has clarified sufficiently to indicate that Ashida's selection as premier has the tacit blessing of SCAP. Under the circumstances it appears probable that Ashida will succeed in forming his Cabinet but it seems equally clear that this Coalition will prove unstable and will continue only long enough to pass some of the pending SCAP sponsored legislation. It is increasingly certain that the political atmosphere will have to be clarified by a general election within three or four months.

Intensity of currency inflation declines. Note issue which as of 31 December 1947 had reached 219,142,000,000 yen declined to 218,049,000,000 yen as of 31 January 1948.

This decline is expected to be only temporary. It represents a close of the calendar year adjustment as banks returned currency in excess of requirements to the Bank of Japan. Inflation impetus is anticipated within the next month as business enterprises turn to the Reconstruction Finance Bank for loans to meet tax payments due by 31 March, the end of the fiscal year. Additional inflationary pressure will come as companies whose production during the winter months has been below schedules, due to power shortages, turn to private banks for loans to meet ordinary operating expenses.

KOREA - Political

Of possible significance in connection with the recent announcement that UN-sponsored elections will be held in South Korea during May is a carefully worked-out plan for Korean elections prepared in September 1947 by the American Delegation on the Joint US-USSR Commission. As the elections will be US-conducted some plan similar to this one will probably be used. Because of the difficult terrain and poor communications the plan provided for successive elections to be held in areas comprising three or four provinces each. This would require much smaller supervisory and control groups than would be necessary for over-all elections. The possibility of appreciable double voting by Koreans moving from one area to another would be mitigated by lack of communications. The plan also called for at least two specially trained American soldiers plus one or two trained Korean police or constabulary to be stationed at each polling place. It has been estimated that the actual elections would take about two weeks in each area, or about one month for South Korea alone.

This plan probably represents the best chance for unbiased elections in

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KOREA (continued)

South Korea. However, the politically untutored Korean voters may be so terrorized prior to the elections by "strong-arm" gangs of the extreme Right that, despite the best efforts of the American command, a sweeping Rightist victory will result. Such a government could hardly be called "representative" in the accepted sense of that term.

Economic

On 19 February 1948, the North Korean People's Committee announced the schedule pursuant to which payments are to be made on private savings accounts which were frozen in the course of the December 1947 currency conversion. Payments to depositors (individuals or organizations) are to be made according to the following schedule: Total amount of blocked savings under 2,000 won; 50% of next 3,000 won; 30% of next 5,000 won; 20% of next 40,000 won; 10% of balance above 50,000 won. Only one-half of these payments are to be made on demand, either in cash or bonds, between 25 February and 24 March, 1948; the remaining 50% will be payable on and after 25 March 1948. The balance of blocked savings not subject to these payments are to be transferred to special, non-interest bearing frozen accounts, with any withdrawals therefrom being forbidden. All private savings not in frozen accounts will be honored without limit after 25 March 1948.

In the early part of December 1947, Soviet occupation currency and Japanese-issued Bank of Chosen notes were exchanged for new currency issued by the North Korean People's Council. Individual persons were permitted to exchange 200 won and heads of families 500 won, at the rate of one for one. All excess currency had to be deposited in state banks where it was frozen until the effective date of the above specified plan, that is, 25 February.

Bunce, Economic Adviser to General Hodge, expresses the opinion that due to current propaganda exigencies, the conversion unlike its Soviet counterpart was more liberal to cash holders and considerably less liberal to those having savings accounts prior to the "freeze" order in December 1947. He also believes that the conversion is probably likely to affect city traders with bank accounts more than peasants with none.

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CHINA

Military

At present the Communists in Manchuria are engaged in cutting off all outlying defense points around Mukden and reducing them one by one. Reportedly directed from Lin Piao's new operational headquarters at Maoching, 40 miles southwest of Mukden, Communist units have captured Yingkou, leaving Hulutao as the sole port of entry remaining to the Nationalists in Manchuria. Communist forces have encircled and either captured or are about to capture Penchiku and Kaiyuan, and are pressing strong attacks against Hsinmin and Tiehling. Although the Nationalists claim to have pushed up the Peiping-Mukden railroad from Chinchou past Koupangtze, their chances of opening this vital rail line to traffic appear pretty slim.

In North China, Communist forces continued to harass Nationalist lines of communication, interrupting service on the Peiping-Tientsin railway and isolating Huching, midway between the two cities. Nationalist units advancing south from Chengchou and north from Hankow joined near Hsuehchang and restored that section of the Pinghan railway to National Government control. However, Communist forces of Liu Po-cheng and Chen Yi, the latter just returning from western Shantung, are reported massing east of that stretch of railway.

Political

Following the initiative taken by the Soviet in announcing that an extension would be agreeable to the USSR, an official Chinese spokesman announced that the Chinese Government desires to extend for another two years the Sino-Soviet Treaty of Non-Aggression of August 21, 1937. The treaty which initially was to be effective for five years, that is until 1942, has been automatically extended every two years since that date.

The USSR has requested the Chinese Government to close its consulate at Semipalatinsk in reprisal for the Chinese request that the Soviet Consulate at Lanchow be closed. The Chinese contend there is no consular function for the Soviet office in Lanchow to perform and that too many Soviet army officers were being assigned to that office without legitimate reason; at the same time the Chinese consider their consulate at Semipalatinsk their most important consulate in the USSR because of a sizeable Chinese colony there and because supplies for Sinkiang mines come through that point.

The appointment of former Soviet Military Attache to China, Major General N. V. Roschin, as Ambassador in Nanking came as a surprise to the entire diplomatic corps in China. Roschin replaces Ambassador Petrov who has not been in China since his return to Moscow in June 1947. Consensus of informed sources is that Roschin is an able and well-liked man who knows China well.

General Roschin's appointment has raised additional speculation as to the possibility of Soviet good offices or mediation in the civil war. Prior to leaving China in January, Roschin talked with a few Nanking officials on this subject although the National Government has officially denied that the USSR made such an overture. The possibility that the Communists and the National Government of Chiang Kai-shek can come to an agreement ending the civil war is extremely remote.

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The National Government position in Manchuria is fast becoming desperate. Chinese officials have stated that Wei Li-huang will not be able to hold out for more than ninety days. Manchurian leaders, Ma Chan-shan, Chang Tso-hsiang and Wang Hua-lyi have stated their willingness to cooperate in relieving Wei, and it is reported that Chang Tso-hsiang and Wang Hua-lyi have approached the Generalissimo in an attempt to persuade him to send sorely needed military support under their leadership.

The controversy over the National Assembly elections still continues with no solution in immediate view. The Kuomintang candidates that were elected without party backing still insist on the legality of their election, thus destroying the seat distribution arranged by the Kuomintang with the Democratic Socialist and Young China parties prior to the election. The position of these elected officials has been supported by the decision of the Control Yuan that they are the delegates legally chosen through the democratic process. It is reported that the Kuomintang has offered these delegates other positions in the government as a reward for giving up their seats, but the compromise has met with little success. The controversy is causing a split within the ranks of the Kuomintang and the postponement of the National Assembly meeting now scheduled for 29 March is a very real likelihood.

Economic

Currency. The Shanghai money market took another jump the past week. US \$ bank notes on the blackmarket opened at CN \$260,000 to 1 on 23 February, rose to a high of 310,000 on 25 February, and then dropped to 285,000 on 27 February following reported large scale arrests of blackmarket operators. The official "open" US \$ selling rate was raised from CN \$137,000 to 151,000 on 20 February, still about half the present blackmarket rate.

Prices. Commodities continued to rise; rice reached a new high of CN \$3 million a picul on 26 February compared with CN \$2.1 million a week before.

Foreign Trade. The National Government reports that exports exceeded imports (by US \$4.26 million) in December 1947, for the first time since V-J Day. The Export-Import Board has announced that quotas for imports of Schedule II commodities (essential raw materials) for the 6 month period February - July 1948 have been cut to US \$73.47 million, a 40% decrease from the previous 6 months. This may result in temporary improvement in the trade balance, but would also retard production of exportable goods in view of badly needed raw materials from abroad.

The Central Trust is reportedly buying goatskins for shipment to Russia allegedly in liquidation of debt incurred for Soviet aid early in the Sino-Japanese war. US Consul General at Shanghai believes it possible that these skins may later be offered to US buyers to acquire dollars.

Shipping. The CC organ Shun Pao reports that the government is considering opening Yangtze ports to specific foreign ships under a special arrangement to expedite delivery of relief supplies.

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INDONESIA

Premier Hatta of the Indonesian Republic has stressed the Republic's willingness to cooperate in the establishment of an interim government preparatory to the projected United States of Indonesia (USI). The Dutch have replied that the Republic could enter into the formation of a pre-federal government of all Indonesia once a political agreement is reached, and have thus underlined their stand that the Republic's position in the USI will be that of one negara (state) among several with no pretensions of sovereignty. It is likely that this point (i.e. the Republic's reduction to a negara in the USI) will become the key issue in imminent political negotiations since the Republic as a negara would be forced to relinquish independent control over its finances and its military and foreign affairs.

BURMA

Burma's uneven economic rehabilitation is becoming increasingly evident. Although not approaching prewar levels, the production of rice and teak, two of Burma's most important export commodities, has increased to the point where, with the maintenance of strict import controls, Burma should be able to show a balanced budget. Such progress is attributable to the fact that the production of rice and teak do not require advanced technology and the labor is provided almost entirely by indigenous people. In their enthusiasms over independence and socialism, however, the Burmese are in danger of nullifying these gains by precipitate nationalization. The first target of nationalization is the Irrawaddy Flotilla Company (IFC), but it is doubtful that the Burmese are capable of assuming all the responsibilities involved. An indication of Burmese unpreparedness appeared during negotiations between the GOB and the IFC when after long discussions a cabinet minister requested a definition of "depreciation." Confusion will be almost unavoidable in the rapid Burmanization of the IFC and, in all likelihood, will mean that the rice crop will move slowly, and, lacking storage facilities, part of the harvest may spoil.

Politically, factions are developing for and against nationalization. The Anti-Fascist League (AFL) still commands the support of most politically conscious Burmans since most Burmans are predominantly interested in rice and timber, and will continue to support the AFL so long as agricultural conditions improve. On the other hand, Hanthawaddy, the second largest newspaper in Burma which represents the interests of the small and largely unorganized group of landlords and merchants who oppose the government's policies, recently printed several articles severely critical of Prime Minister Thakin Nu. The Prime Minister, referred to as Laxative Nu, for his ability to loosen up the semi-loyal opposition, was accused of political nepotism, of dictatorial tendencies and of surrounding himself with a "mutual praising society." These articles are the first criticism of Prime Minister to appear in the indirectly government-controlled press which has heretofore studiously avoided antagonizing the government. Unless opposition to the government is suppressed, this kind of criticism may increase if the government's policies flounder.

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FRENCH INDOCHINA

During Bao Dai's absence in Europe the leading Annamite nationalists who support the former emperor of Annam have been attempting the organization of a national congress, whose chief function will be the recall of Bao Dai as the emperor of a Vietnamese state freely allied with France but not necessarily bound within the French Union. (See Daily Summary of 21 February 1948, Item 3). This plan was the outgrowth of a meeting held just prior to the ex-emperor's departure for Geneva in December, at which time these nationalist leaders persuaded Bao Dai of his tactical error in committing Vietnam to join the French Union. The proposed national congress would extricate Bao Dai from his commitment to High Commissioner Dollaert by stating that he acted as an individual rather than as a representative of Vietnam. While such an assembly could achieve this aim and would allow the exchange of views by nationalist leaders from each area, the assembly also would be susceptible to domination by the French through their control of air priorities, financial aid, and promises of jobs for attending nationalist representatives.

PHILIPPINES

Roxas rumored considering Cabinet changes. According to current reports in the Manila press, President Roxas is considering several major cabinet changes in order to utilize experienced prewar administrators recently freed from collaboration charges by the amnesty proclamation. Chief among the possible appointees is Jorge B. Vargas who is expected to be appointed Presidential secretary (Chief of the Executive Office), an important administrative position which he held for six years under President Quezon. During the occupation he served as Philippine Ambassador to Japan. Other high-ranking collaborators mentioned for cabinet or important government positions are Claro M. Recto, occupation Minister of Foreign Affairs, and Antonio de las Alas, occupation Minister of Finance.

Contract awarded for scrapping surplus ammunition. Former Ambassador Paul W. McNutt, representing the Johnio Trading Company of Portsmouth, Ohio, on 24 February submitted the highest acceptable bid of \$335,000 for the more than 90,000 tons of surplus ammunition transferred by the US to the Philippine Government. (See FP/P Weekly 3-9 February.) A higher bid of \$805,000 was disqualified for failure to post a 20% bond. The surplus ammunition, to be demilitarized and sold as powder and scrap metal, had an estimated procurement cost of approximately \$70 million; US Army ordnance experts estimate its present value at more than \$5.5 million. However, the cost of demilitarizing and marketing the ammunition, much of which is highly unstable after long exposure, is expected to run high. The Philippine Government anticipates receiving more than \$250,000 in export taxes from the project.

Guerrillas seek share of Armed Forces promotions. As a result of strong guerrilla pressure, President Roxas has directed the House Committee on National Defense to draft legislation designed to readjust the Armed Forces promotion system in order to credit guerrilla service during the Japanese occupation.

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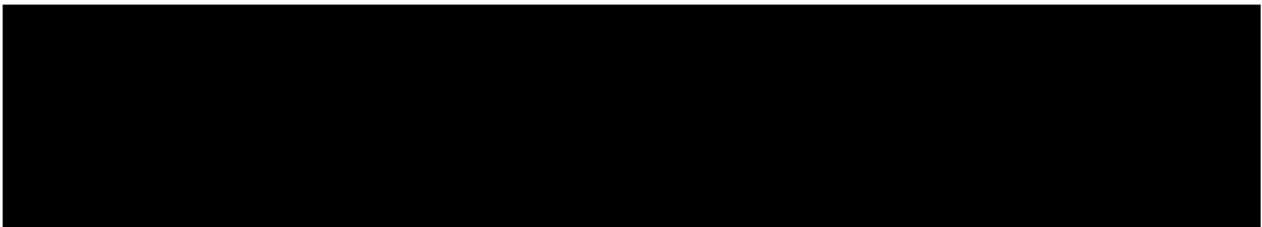
PHILIPPINES (continued)

This action apparently took place after an ex-guerrilla group including Senator Pandatun, Defense Secretary Kangleon and General Ferrita, Veterans Board chairman reported to the President the widespread demoralization in ex-guerrilla ranks. About 100 of 708 regular and less than half of 2,790 reserve officers on active duty would be benefitted by the proposed bill which would consider services of guerrilla officers of both recognized and unrecognized units.

Labor official murdered. Manuel M. Joven, assistant secretary in the Philippine Communist Party and executive secretary of the Congress of Labor Organization (CLO), the most active labor organization in the Philippines, was murdered by unknown gunman on 24 February on a highway south of Manila. The Philippine police and Constabulary have initially explained the murder as motivated by rivalry between labor groups.

AUSTRALIA

Australian settlement with US expected. The representative of the US Foreign Liquidation Commission in Sydney, has reported that the Australian Prime Minister and Defense Council are expected to make an early decision on a final base and surplus property settlement with the US. Should the Australian Government decide upon the development of Manus as a naval base, a tentative offer of \$1,250,000 as full settlement of US interests in Manus, New Guinea, and certain Lend-Lease matters will probably be made.



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